DOCUMENT RESUME

ED 225 250 EA 015 268

AUTHOR	Picus, Larry
TITLE	Why Property Tax Limitations Won't Limit Everyone's Taxes.
INSTITUTION	Northwest Regional Educational Lab., Portland, OR. Northwest Center for State Educational Policy Studies.
PUB DATE	Aug 79
NOTE	7p.
PUB TYPE	Viewpoints (120)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Elementary Secondary Education; *Finance Reform; *Property Taxes; School Support; State Legislation
IDENTIFIERS	California; Idaho; Proposition 13 (California 1978); *Tax Equity; *Tax Limitations

ABSTRACT

Property tax limitation measures passed in 1978 by voters in California and Idaho contain provisions that apparently will reduce the equity of the property tax system in both states. Changes in assessment practices mandated by the new laws will shift the property tax burden away from business and commercial property and toward residential property and will result in situations in which individuals with comparable property will be taxed differently. Schools facing declining revenues due to limitations on commercial property taxes could find it difficult to obtain relief from voters whose residential property taxes continue to rise. (Author/PGD)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
M. Margaret Rogers
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

ED225250

WHY PROPERTY TAX LIMITATIONS WON'T LIMIT EVERYONE'S TAXES

Larry Picus

Northwest Center for State Educational Policy Studies
A Pilot Project of the
Northwest Regional Educational Laboratory
710 S.W. Second Avenue
Portland, Oregon 97204

August 1979

EA 015 268

WHY PROPERTY TAX LIMITATIONS WON'T LIMIT EVERYONE'S TAXES

On June 6, 1978, the much heralded property tax revolt began with the passage of Proposition 13 in California. The measure, which received approval from two-thirds of California's voters, limits property taxes to 1 percent of the market value. This limitation reduced property tax collections in the state of California by 57 percent. Since that time, only one other state has passed and enacted a similar property tax limitation. It was estimated that the 1 percent Initiative in Idaho would reduce property tax collections in that state from $211 million to $85 million. Although the State Legislature in Idaho made a number of significant changes in the recent Initiative, the final result will be a reduction in total property tax collections.

Both of these limitations, however, contain a number of provisions which apparently will work to reduce the equity of the property tax system. Both of the limitations limit the growth of assessed valuation to 2 percent a year. In California property may be reassessed at its market value when it is sold, whereas in Idaho, all property will be limited to a 2 percent annual growth rate, regardless of changes in ownership. Both limitations have been interpreted to say that all property may be revalued to its market value in a base year, 1975-76 for California and 1978 for Idaho. The effect of these changes in the assessment practices of the two states will lead to two very serious equity problems in the future. The problems are: (1) A shift in the property tax burden, away from business and commercial property toward residential property; and (2) a number of situations in which individuals with identical or nearly identical property will be taxed differently. Each of these issues is discussed in more detail below.

The Shifting Property Tax Burden

California's Proposition 13 limits the growth of assessed valuation of all property to 2 percent a year unless it is sold or traded, at which time it may be revalued at its market value. This limit is effective even if actual property values increase more rapidly than 2 percent a year. Residential property is sold more often than commercial property, and therefore will be revalued more frequently. This means that over time, the homeowner's share of the total property taxes paid will increase, and the proportion paid by commerical property owners will decrease. In fact, it is estimated that the increase in assessed value of residential property, not counting new construction, will grow at a rate approaching 10 percent a year. On the other hand, the growth of commercial property values will be much closer to the 2 percent limit, not including new construction which amounts to between 2 and 4 percent a year for both commercial and residential property. An example will illustrate this.

The average home in California is sold once every seven years. If one assumes a rate of growth in the value of all residential property of 10 percent a year, then the value of residential property will double in seven years. Under the old assessment practice, each property's assessed value would be increased 10 percent a year, doubling every seven. Under the new system required by Proposition 13, the taxable value of a home will grow at only 2 percent a year until it is sold (an average of once every seven years), at which time it will be reassessed at twice its value at the beginning of the seven years. Therefore, over time, the assessed value of residential property in California will continue to grow at 10 percent a year.

On the other hand, commercial property is not traded as frequently, meaning that the 2 percent limitation on the growth of assessed value will have a greater impact on commercial assessed valuations. This means over time that residential property will bear an increasing share of the total property tax bill.

Idaho's situation is somewhat different. The Legislature was able to rewrite the 1 percent Initiative because it was only a statutory change, rather than a constitutional amendment like Proposition 13. To alleviate the problem of reassessing property when it was sold or traded, the Legislature placed a permanent 2 percent limit on the rate of growth of assessed values on all property in the state. In addition, all new construction is to be placed on the tax rolls at its 1978 value, regardless of when it is built.

While this appears to get around the problem of residential property bearing an increasing portion of the total property tax bill, current assessment practices in the state of Idaho will cause another, perhaps more serious problem. The Legislature's version of the 1 percent Initiative, HB 166, requires that all property be reassessed at its 1978 market value. Under current practice, most Idaho counties assess business, commercial and utility property at or over 100 percent of market value, and residential property at about one-third of market value. When all property is reassessed at market value, there will be little or no increase in the value of business and commercial property, and a large increase in the value of residential property, thus shifting the burden away from commercial property.

Individual Inequities

It has been shown that both property tax limitations will result in the shifting of the property tax burden to residential property in the long run. However, there are also a number of individual inequities that will appear because of the changes brought about by these limitations.

One of the most obvious is the effect of allowing property to be revalued when it is sold in California. Under this system, it is possible that two people living next door to each other with identical homes, will have very different tax bills, depending on when the home was purchased. Individuals who do not sell their homes will have lower tax burdens than those who purchase a new home. This is likely to have a significant impact on the real estate market in the state and also on the choices made by individuals in seeking new employment. People may be less willing to move to a new community because it will mean a substantial increase in property taxes, even if their new home is similar to their old home.

A second problem that will occur mostly in Idaho, although there will be examples of it in California as well, has its roots in assessment inequities of the past. Since both the California and Idaho limitations allow the assessors to revalue property at its market level in a base year, all property that was valued at some fraction of its actual value will receive a large increase in its assessment. In some cases, it is possible that this reassessment will result in property tax bills that are higher than they were before the enactment of the property tax limitation. Since it is generally residential property which is assessed at the lowest fraction of market value, homeowners are most likely to be the victims of this situation.

Conclusion

Although the aggregate effect of both property tax limitations enacted in 1978 will be to reduce property tax collections considerably, there is a great deal of evidence that the biggest beneficiaries will be owners of business and commercial property. This will increase over time, as tax burdens are shifted to residential property. Additionally, because assessors are allowed to estabish the market value of all property in a base year, owners of property that is significantly undervalued will find large increases in their assessments, and possibly their property tax bills.

These factors have serious consequences for educational decision makers. Taxpayers who have, or think they have, voted themselves permanent reductions in property taxes may be surprised to find their tax bills growing at the same pace as before, and some may even find that after passing a tax limitation their taxes have gone up! At the same time, educators will be faced with declining sources of revenue for financing educational activities. This combination of reduced educational resources and higher than expected tax burdens may lead to hard times in the near future for education.